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Legislative Auditor

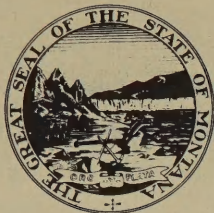


State of Montana
Report to the Legislature
December 1990

12th Biennial Report

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Direct comments/inquiries to:
Office of the Legislative Auditor
Room 135, State Capitol
Helena, Montana 59620



Office of the Legislative Auditor

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LEGAL COUNSEL:
JOHN W. NORTHEY

December 1990

To the Members of the 52nd Legislative Assembly:

This 12th Biennial Report is transmitted to the Legislature pursuant to the provisions of section 5-13-304(7), MCA. This report summarizes the activities of the Legislative Audit Committee and the Legislative Auditor for the past two years.

The report includes information about the scope and role of the legislative audit function and recent developments that will have an effect on the Office of the Legislative Auditor in the future.

The audit staff appreciates the guidance and support received from the members of the Legislative Audit Committee.

Sincerely,

A handwritten signature in black ink, appearing to read "Scott A. Seacat".
Scott A. Seacat
Legislative Auditor

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Legislative Audit Committee

The Legislative Audit Committee is a bicameral and bipartisan, standing committee of the Missouri Legislature. It consists of four members of the Senate and four members of the House of Representatives. The Audit Committee appoints, consults with, and advises the Legislative Auditor. The Audit Committee also reviews the audit reports submitted by the Legislative Auditor, releases the audit reports to the public, and serves as the conduit between the Legislative Auditor and the Legislature.

The Legislative Audit Committee held 15 meetings during the 1989 and 1990 calendar years. At one meeting the Audit Committee elected its officers, established its rules of order and priorities and appointed the Legislative Auditor. Annually, the Committee adopts a detailed budget and reviews financial reports of the Legislative Auditor's operations and approves the audit plan. At each meeting, the Committee receives and reviews audit reports submitted by the Legislative Auditor.

Elected and Appointed Officials

Members of the Legislative Audit Committee

Senators

Greg Jergeson
(Vice Chairman)
Chinook

Tom Keating
(Secretary)
Billings

Tom Rasmussen
Helena

Mike Walker
Great Falls

Representatives

John Cobb
(Chairman)
Augusta

Mike Kadas
Missoula

Robert Pavlovich
Butte

Bruce Simon
Billings

Legislative Auditor

Scott A. Seacat
Helena

Introduction

Introduction

Prior to 1967, there was limited auditing of state agencies in Montana. In 1967, the Legislature enacted the "Legislative Audit Act" creating a legislative post-audit function in Montana state government.

Article V, Section 10(4) of the Montana Constitution mandates a legislative post-audit function. The Legislative Audit Act, contained in Title 5, chapter 13, MCA, established the Legislative Audit Committee of the Montana Legislature and the Office of the Legislative Auditor. The Legislative Audit Committee and the Office of the Legislative Auditor provide the Legislature, its committees, and its members with factual and timely information vital to the discharge of their legislative duties. This 12th Biennial Report summarizes these operations over the past two years.

Legislative Audit Committee

The Legislative Audit Committee is a bicameral and bipartisan standing committee of the Montana Legislature. It consists of four members of the Senate and four members of the House of Representatives. The Audit Committee appoints, consults with, and advises the Legislative Auditor. The Audit Committee also reviews the audit reports submitted by the Legislative Auditor, releases the audit reports to the public, and serves as the conduit between the Legislative Auditor and the Legislature.

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Introduction

Legislative Auditor

The Legislative Auditor is solely responsible to the Legislative Assembly and operates primarily through the Legislative Audit Committee. The term of office is for two years beginning July 1 of each odd numbered year.

The Legislative Auditor has the statutory authority to examine, at any time, all the books, accounts, and records, confidential or otherwise, of a state agency. All state agencies are required by law to aid and assist the Legislative Auditor in the auditing of books, accounts, and records.

The Legislative Auditor has two primary duties prescribed by the Legislative Audit Act:

1. Conduct audits of state agencies, programs, and operations.
2. Assist the Legislature, its committees, and its members by gathering and analyzing information when requested.

Audit Objectives and Standards

The general objectives of audits performed by the Office of the Legislative Auditor are prescribed by law. They are "to determine whether:

1. The agency is carrying out only those activities or programs authorized by the Legislative Assembly and is conducting them efficiently and effectively.
2. Expenditures are made only in furtherance of authorized activities and in accordance with the requirements of applicable laws and regulations.
3. The agency collects and accounts properly for all revenues and receipts arising from its activities.
4. The assets of the agency or in its custody are adequately safeguarded, controlled, and utilized in an efficient manner.
5. Reports and financial statements by the agency to the Governor, the Legislative Assembly, and central agencies disclose fully the nature and scope of the activities conducted, and provide a proper basis for evaluating the agency's operations."

The Office of the Legislative Auditor has adopted the standards and procedures for auditing established and advocated by the American Institute of Certified Public Accountants (AICPA), and the United States General Accounting Office (GAO). These standards and procedures include the *Statements On Auditing Standards* and *Industry Audit Guides*, published by the AICPA, and the *Government Auditing Standards*, published by the GAO.

Federal Requirements

Under federal law, the Single Audit Act of 1984, the office is required to conduct an annual audit of federal programs in accordance with Office of Management and Budget (OMB) Circular A-128. Since Montana state statute requires the office to conduct biennial audits of all state agencies, the office completes the Montana Single Audit on a biennial basis. This audit includes reviews of the state of Montana and its agencies internal controls, accounting procedures, and compliance with federal and state laws and regulations. The audit is conducted in accordance with *Government Auditing Standards* and OMB Circular A-128. The state of Montana received over \$1.2 billion in federal financial assistance during the two-year period ending June 30, 1989, contingent, in part, upon completion of the audit schedule, approval of the Legislative Auditor's Single Audit report and compliance with federal audit mandates.

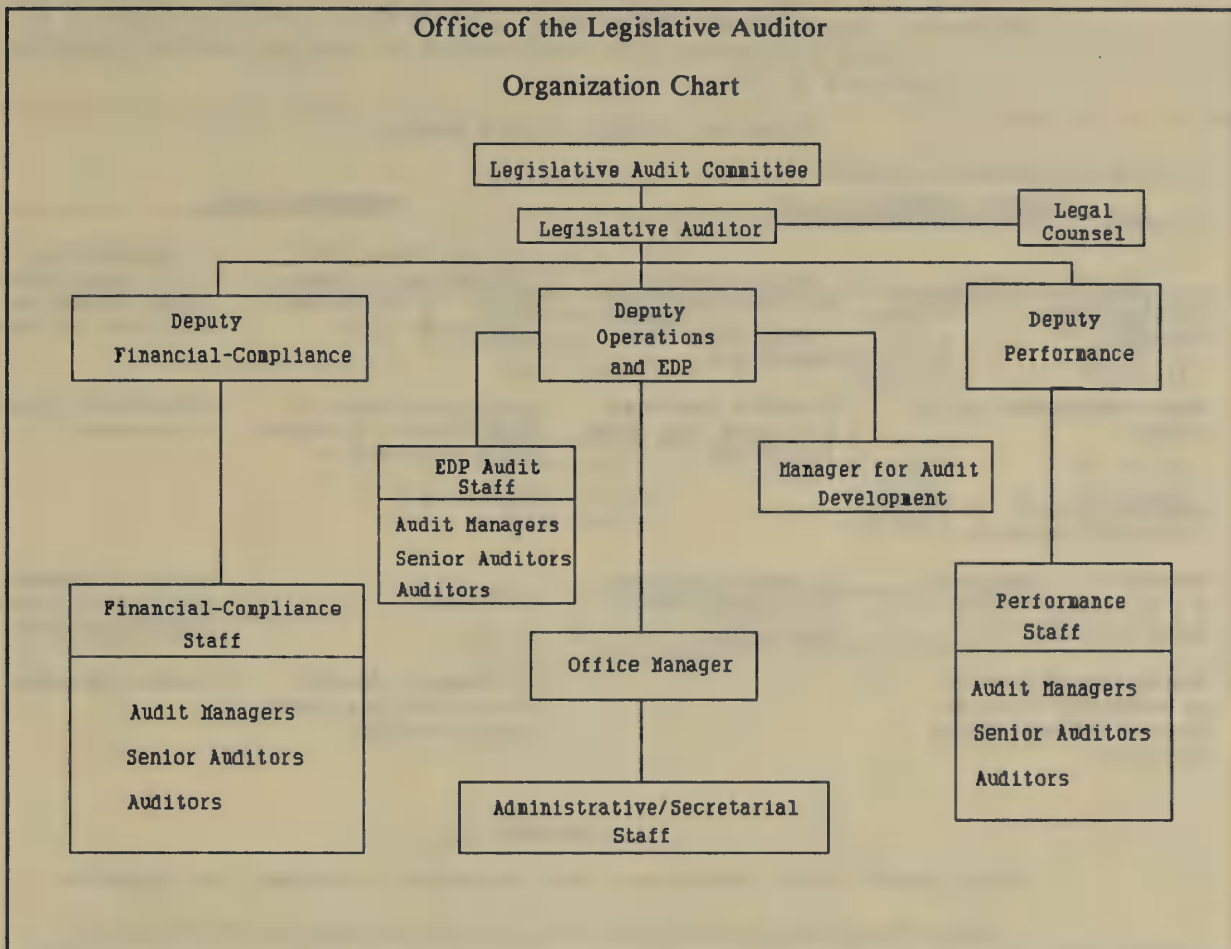
Audit Reports

Audit reports prepared by the Legislative Auditor present recommendations for improvements in state agency operations and programs. Audit reports are distributed to all interested parties. The audit reports issued during calendar years 1989 and 1990 are listed in Appendix B. The audit assignments in progress in December 1990, for which audit reports will be forthcoming, are listed in Appendix A. Copies of reports may be obtained from the Office of the Legislative Auditor, Room 135, State Capitol, Helena, Montana 59620 (406-444-3122).

Introduction

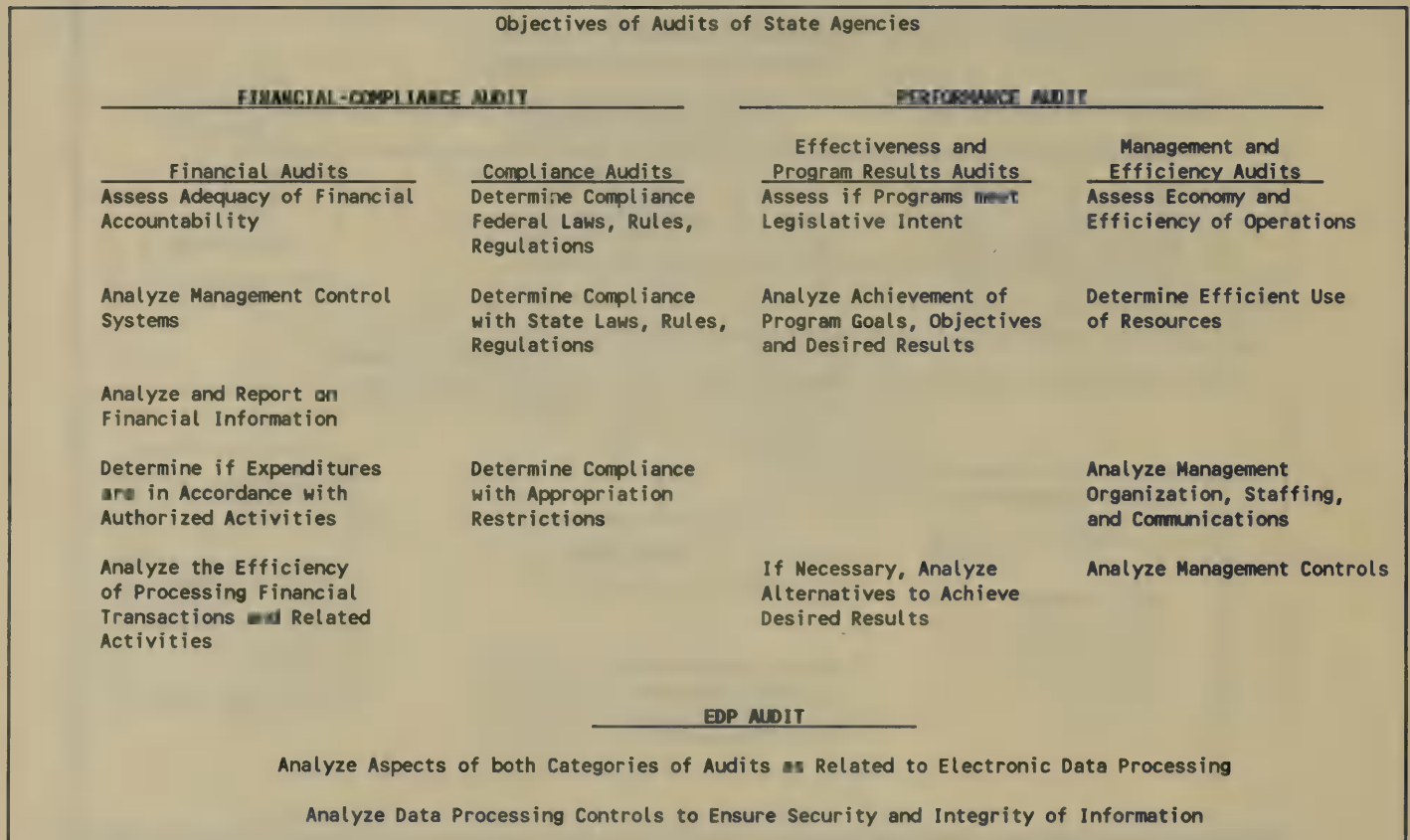
Office Organization

The three functional areas of the office are: Financial-Compliance Audit, Performance Audit, and Operations/Electronic Data Processing (EDP). The office conducts an annual audit of the state of Montana financial statements as well as biennial financial-compliance audits of all state agencies. Legislatively requested audits and performance audits are conducted independently and determine effectiveness, efficiency, and compliance with laws, rules, agency goals, and program objectives. EDP audits evaluate data processing systems and controls, and are conducted independently and in conjunction with financial-compliance and performance audits. These functional areas are discussed in detail in the following sections. The following chart depicts the organization of the office during the biennium.



Introduction

The relationship of the various types of audits is shown in the following chart which depicts the scope of government audits.



Budget Report

The office is funded from both the General Fund and the Special Revenue Fund. The Special Revenue Fund moneys represent charges to state agencies for financial-compliance audits mandated by statute. The amounts to be charged to the agency are appropriated to each agency. The office bills for the cost of the biennial audit and for one-half the costs of the annual audit of the state's General Purpose Financial Statements.

Office of the Legislative Auditor Budget Report 1990-91 Biennium

	<u>Office of the Legislative Auditor</u>	
	<u>1989-90 Actual¹</u>	<u>1990-91 Estimated²</u>
Expenditures:		
Personal Services	\$1,777,381	\$1,861,168
Operating Expenses	248,611	298,057
Equipment	<u>33,525</u>	<u>32,727</u>
Total Expenditures	<u>\$2,059,517</u>	<u>\$2,191,952</u>
Funding:		
Appropriation Distribution		
General Fund	\$1,024,930	\$1,119,316
Special Revenue	<u>1,034,587</u>	<u>1,072,636</u>
Total Funding	<u>\$2,059,517</u>	<u>\$2,191,952</u>

¹Source: Statewide Budgeting and Accounting System

²Source: Fiscal Year 1990-91 Operating Plan

Financial-Compliance Audits

Scope and Objectives

Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine an agency's financial operations are properly conducted, the agency has complied with applicable laws and regulations, and the financial reports are presented fairly. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold CPA certificates. For promotion to Financial-Compliance Senior Auditor III, staff must be a CPA or an active CPA candidate.

The primary objectives of financial-compliance audits are to ascertain that agencies:

1. Make expenditures only in furtherance of authorized activities and in accordance with the requirements of applicable laws and regulations.
2. Collect and account properly for all revenues and receipts arising from their activities.
3. Maintain adequate safeguards and accountability for assets in their custody.
4. Submit reports and financial statements to the Governor, the Legislature, and central control agencies which disclose fully the nature and scope of the activities conducted, and provide a proper basis for evaluating the agencies' operations.

A secondary objective of financial-compliance audits is to identify instances and areas where agency operations or programs are uneconomical, inefficient, and/or ineffective. These areas may be developed as part of the financial-compliance audit or as separate performance audits depending upon the magnitude of the areas and the need for concentrated audit resources.

Areas of Emphasis During the Biennium

During the past two years the office again completed total biennial audit coverage of all state agencies. This was accomplished by office staff supplemented by the contract audit program. The result is that each state agency is audited every two years for the preceding two-year period as required by state law. The audit reports issued during the last two years provide current information concerning all state agencies. The audit reports represent an up-to-date, readily available base of information concerning the operation of all state agencies which is available to the legislature, its members, and its committees. A list of the financial-compliance audits released in the past two years is provided in Appendix B. Audits in progress are listed in Appendix A.

Summary of Audit Findings

The audit reports issued include recommendations in areas where the office believes the agencies should take action to improve efficiency and accountability.

Audits noted instances where state agencies could save money. In other instances the office recommended action that would allow the state to realize additional revenue from outside funding sources. Other findings noted situations where procedures did not comply with state or federal laws and regulations, as well as agency policies. In some cases, state funds were spent without proper documentation or authorization.

Following are some examples of the findings included in the financial-compliance audit reports.

Department of Labor and Industry (88-5)

This report contains 28 audit recommendations. Major issues addressed in the report include:

- \$417,876 recovery of General Fund moneys.
- \$157.3 million unfunded liability in the State Compensation Insurance Fund.
- Medical benefit payment system operations.
- Workers' compensation payment automation.
- Data processing system security.

Financial-Compliance Audits

Two of the major issues are discussed briefly below.

The department erroneously deposited \$417,876 in interest on unemployment insurance assessments in the U.S. Unemployment Trust Fund. State law requires the interest to be deposited in the General Fund. Department personnel said federal law restricts payments from the U.S. Unemployment Trust Fund to benefit payments. The department should recover these state moneys for the General Fund by either transferring the money back from the trust fund or reducing future transfers of this tax money to the trust fund.

Actuarial projections for the State Compensation Insurance Fund (SCIF) disclosed a full-funding deficiency of approximately \$157.3 million at June 30, 1988. State law requires the department to set premium rates so the program is neither more nor less than self-supporting. The existence of an unfunded liability indicates the department has not set premium rates in past periods sufficient to make the SCIF self-supporting.

Department of Revenue (88-6)

This report contains nine recommendations for improvement of the department's operations including recommendations relating to:

- Compliance with state law relating to Coal Tax Investment Earnings and Indirect Cost Recovery.
- Uncollected oil severance taxes.
- Accounts receivable automation.

One of the major issues is discussed briefly below.

The department erroneously transferred \$13,843,264 of coal tax income and investment earnings designated by law for the coal tax permanent trust from the permanent trust fund to an expendable trust fund. The transfers were made under the direction of Governor's Office personnel who believed the coal tax investment earnings were not part of the permanent trust fund principal and such were available for legislative appropriation by a simple majority vote. We discussed this issue with

Financial-Compliance Audits

the Department of Administration and they subsequently requested a legal opinion from the Attorney General. The Attorney General found the transfer of \$13,843,246 from the coal tax permanent trust to be in violation of state law.

Department of Institutions (88-7)

This report contains 22 recommendations. Major recommendations are for the department to:

- Seek reclassification of facilities and document General Fund match to recover federal Medicaid reimbursement of \$1.6 million and increase annual Medicaid reimbursement by at least \$500,000 per year.
- Improve billing procedures for reimbursement of the cost of residents' care.
- Strengthen internal systems to improve controls over:
 - residents' prescribed medications;
 - employee payroll and leave;
 - inventory and fixed assets;
 - computer system security, and;
 - state and residents' cash.
- Account for financial activity in accordance with state law.

Eastern Montana College (88-9)

This report contains seven recommendations for improvement of the college's operations, including recommendations relating to:

- Compliance with state policy governing use of the Contingent Revolving Fund.
- Compliance with federal regulations relating to Student Financial Assistance Programs.

Western Montana College (88-10)

This report contains nine recommendations for improvement of the college's operations, including recommendations relating to:

- WMC Foundation.
- Compliance with state accounting policy.
- Improving accounts receivable procedures.
- 1966 revenue bond indenture.

One of the major issues is discussed briefly below.

Of \$137,580 in accounts receivable in the General Operating Fund, \$131,411 are over a year old. Seventy-three percent of

Financial-Compliance Audits

short-term (60 day) loans in the loan fund have been outstanding for at least 120 days. The dates of the loans range from January 1970 to January 1988.

Department of Health and Environmental Sciences (88-11)

This report contains nine recommendations related to:

- Charging personal service expenditures to the Superfund program.
- Reporting expenditures on federal reports.
- Compliance with state laws.
- Improving security over computer operations.

Office of Public Instruction (88-12)

This report contains six recommendations for improving compliance and management controls. These recommendations include:

- Recording all revenue and expenditures related to the 45 mill basic levy.
- Federal compliance issues.
- Electronic data processing controls.

One of the major issues is discussed briefly below.

The Office of Public Instruction did not record either revenue or expenditures on the state's accounting records related to the collection of the statewide 45 mill property levy as required by generally accepted accounting principles. Revenues and expenditures are understated by approximately \$79 million and \$83 million in fiscal years 1986-87 and 1987-88, respectively.

Department of Administration, Public Employees' Retirement Division (88-15)

This report contains four recommendations:

- Investment limits.
- Unfunded liability review.
- Actuarial valuation.
- Inaccurate data on the computer system.

Also included is a disclosure issue relating to the funding of the Judges' Retirement System.

Financial-Compliance Audits

One of the major issues relates to the actuarial valuation. Information on PERD's data system was not always complete and accurate. Since this information is provided to the division's actuary, the problems noted could result in the actuary reaching an invalid conclusion as to the actuarial soundness of the retirement systems.

Office of the State Auditor (88-17)

This report contains ten recommendations for improvement of the office's operations. Major issues addressed in the report include:

- Retirement accruals.
- Revenue classification.
- Investment requirements.

One of the major issues is discussed briefly below.

The entire cash balance remaining in the security and insurance regulatory trust accounts should be transferred to the General Fund at fiscal year-end. The office did not transfer \$375,336 and \$116,820 from these accounts to the General Fund at fiscal year-end 1986-87 and 1987-88, respectively. The office only transferred the amount of the transfer appropriation rather than the cash balance.

Department of Military Affairs (88-22)

This report contains seven recommendations to the department. Major items in this report include:

- Air National Guard Firefighters on state payroll.
- Accounting issues regarding:
 - revenue accruals,
 - expenditure accruals and reductions,
 - construction work in progress, and
 - construction advances.

Financial-Compliance Audits

Judicial Branch (88-23)

This report contains four recommendations for improving compliance and management controls. These recommendations include:

- Recording revenue and expenditures associated with Judges' Retirement System.
- Compliance with state accounting policy governing expenditure accruals.

Montana Single Audit Report (89-2)

This document is prepared in accordance with the federal Single Audit Act of 1984 and OMB Circular A-128. It contains the auditor's report on Montana's Schedule of Federal Financial Assistance for the two years ended June 30, 1989. The document includes required reports on the state of Montana internal controls and compliance with federal and state laws and regulations, a Schedule of Questioned Costs, and Federal Issues. The Montana Comprehensive Annual Financial Report for each of the two fiscal years ended June 30, 1988 and 1989, and our unqualified audit reports thereon have been separately issued.

The Schedule of Federal Financial Assistance reflects federal assistance of \$592 million and \$627 million for fiscal years 1987-88 and 1988-89, respectively. The report includes total questioned costs of \$1,492,934. We issued an unqualified opinion on the Schedule of Federal Financial Assistance. The unqualified opinion indicates the schedule is fairly stated in all material respects and the reader can rely on the reasonableness of the information presented.

Board of Investments, Department of Commerce (89-3)

This report contains seven recommendations to improve the board's operations. These recommendations address:

- Investment securities on loan.
- Accounting issues relating to accuracy of state accounting records.
- Automated accounting and investment system.

Also included in the report is a disclosure issue relating to the investment of the Permanent Coal Tax Trust Fund.

**Montana State University,
Agricultural Experiment
Station, Extension Service
(89-5)**

This report contains 15 recommendations which address the following issues:

- Adequacy of management controls to ensure MSU complies with grant provisions. This resulted in \$1.1 million of questioned costs.
- Compliance with state purchasing laws and regulations.
- Cash management procedures which resulted in \$392,000 lost investment income over the last six years.
- Compliance with state policy for nontreasury cash accounts.
- Compliance with appropriation reversion laws and laws requiring spending non-General Fund money first which resulted in \$207,000 due the General Fund.
- Accounting and reporting to provide complete and accurate financial information.

One of the major issues is discussed briefly below.

MSU management should improve budgetary controls over grants and contracts. We noted projects had overspent budgets or budget categories specified in grant agreements. As of June 30, 1989, fourteen projects in eight university departments had budget overruns (cash deficits) totaling \$631,690. MSU management needs to implement a formal plan to eliminate the cash deficits caused by overspending in the Grant and Contract (G&C) accounts.

MSU spent money for projects although funding was not yet available or the source was not yet known. Incurring expenditures prior to obtaining a specific funding source contributes to the budgetary and cash deficit problems. University officials should ensure there is a reliable funding mechanism available before making payment commitments in the G&C accounts.

**University of Montana
(89-6)**

This report contains eight recommendations to assist the university in improving its operations. Recommendations address several areas including:

- Complying with appropriations laws.
- Improving controls over cash collections.

Financial-Compliance Audits

- Complying with federal regulations including those related to Perkins Loans and Stafford Loans.

The university improperly moved \$354,376 of revenues and expenditures from the General Operating Fund to the Designated Fund. If the university had processed program transfers to move all available authority to the instruction program, it would still have overspent its General Fund appropriation by \$176,654.

Northern Montana College (89-7)

This report contains 13 recommendations for improvement of the college's operations, including recommendations relating to:

- Cash management.
- Property records.
- Nontreasury investments.

One of the major issues is discussed briefly below.

Northern Montana College (NMC) could improve cash management practices related to:

- federal revenue,
- interentity loan authorization,
- contingent revolving account, and
- nontreasury cash.

Currently, these practices do not comply with state law. For example, we observed delays in drawing funds from the U.S. Department of Education and in requesting reimbursement from the Environmental Protection Agency. The college maintains a \$35,000 contingent revolving fund checking account with a Havre bank. We previously recommended the college request proposals from banks for the contingent revolving fund or obtain a written exemption from current state policy from the Department of Administration. The college has not implemented the recommendation. Finally, we noted some instances in which the college did not follow state policy in the use of change funds and contingent revolving funds.

Financial-Compliance Audits

Department of Administration (89-8)

This report contains 12 recommendations for improving internal controls, financial reporting, and compliance. These recommendations address:

- Cash collection controls.
- Adequacy of support for documents.
- Training to user state agencies.
- Electronic data processing controls.

Also included in the report is a disclosure issue relating to allowability of interest charges. One of the major issues is discussed briefly below.

We performed a follow-up review to determine if weaknesses in data processing controls identified in the prior audit had been corrected. Weaknesses still present include the location of telecommunications equipment and the lack of off-site storage of its data and programs. The department also has not finalized a telecommunication disaster recovery plan. The value of the telecommunications equipment in this location is conservatively estimated at over \$3.5 million. The replacement cost in the event of a disaster would be considerably higher than the value of the equipment.

Department of Social and Rehabilitation Services (89-9)

This report contains 27 recommendations. Major recommendations are for the department to:

- Propose amendments to the Medicaid state plan that allow the state to recover nearly \$2,000,000 in federal Medicaid reimbursements for state institutions.
- Deposit \$420,798 in indirect cost recoveries in the General Fund.
- Improve accountability for cash flows and fund balances of federal financial assistance programs.
- Develop procedures to charge Medicaid Waiver case management costs at the proper federal rates and obtain an estimated \$32,000 annual increase in reimbursement for the General Fund.

We found that regulations adopted by the department prevented the state from recovering full Medicaid reimbursement for per

Financial-Compliance Audits

diem costs at state institutions. As a result, the state lost a total of \$1,079,000 in fiscal years 1986-87, 1987-88, and 1988-89 and faced a potential loss of \$826,000 for fiscal year 1989-90. The Department of Institutions has sufficient General Fund expenditures to match all Medicaid reimbursable per diem costs at the affected institutions.

Department of Commerce (89-10)

This report contains six recommendations for improving compliance and management controls. These recommendations address:

- Spending in accordance with approved operating plans.
- Preparing and distributing a county collections manual.
- Requiring licensing boards to set fees commensurate with costs.
- Complying with federal regulations governing the Section 8 Housing and Community Development Block Grant programs.

One of the major issues is discussed briefly below.

We reviewed the level of activity of the Professional and Occupational Licensing boards administratively attached to the department. We identified 21 to 24 boards that should review their fee structure and reduce fees to comply with section 37-1-134, MCA. This statute requires the boards to set their fees commensurate with the costs of the programs.

Department of Family Services (89-12)

This report contains 17 recommendations. Major recommendations are for the department to:

- Strengthen internal systems over:
 - residents' cash;
 - completeness and support of financial records; and
 - property, plant, and equipment.
- Comply with legislative appropriation requirements.
- Establish cash management and expenditure recording procedures.
- Account for financial activity in accordance with state law.

One of the major issues is discussed briefly below.

Many of the problems noted occurred because department personnel did not have adequate training regarding laws and accounting policies. In addition, key accounting personnel did not provide adequate supervision and guidance to employees and did not thoroughly review transactions recorded on the state's accounting records.

Department of State Lands (89-13)

This report contains eight recommendations for improvement of the department's operations. The major items addressed in this report include:

- Spending non-General Fund money first.
- Fire suppression funding.
- Unrecorded General Fund revenue.
- Compliance with Appropriation Law includes returning \$165,476 to the General Fund.
- Abandoned Mine Bureau internal controls.

Two of the major issues are discussed briefly below:

The department jointly funds its Central Management and Slash Disposal programs with General Fund and Special Revenue Fund money. According to section 17-2-108, MCA, the department should apply expenditures against non-General Fund money before spending the General Fund appropriation. In total, the department could have saved \$252,893 in General Fund expenditures. The department used the fund balance in Special Revenue Fund in setting its 1990-91 biennium budget. Therefore, we did not recommend the department revert money to the General Fund, but it should monitor its Special Revenue Funds in the future.

The department's responsibilities include fire suppression on state and private lands. The department pays its fire suppression cost out of its General Fund budget. Based on the events of the fiscal year 1988-89 fire session and recommendations made in the last three audit reports, the department should investigate an alternative method of funding fire suppression cost. We suggested the department work with the Office of

Financial-Compliance Audits

Budget and Program Planning to develop a long-range solution to funding fire suppression costs.

Billings Vocational- Technical Center (89-15)

This report contains ten recommendations to the center regarding:

- Deposit of tuition checks.
- Spending non-General Fund money first.
- Installment computer purchase.
- Fixed asset controls.
- Compliance with federal regulations.
- Accounting for financial activity in accordance with state law.
- Enrollment reporting.

One of the major issues is discussed briefly below.

If a student did not have the money to pay tuition during registration, the center would accept a check and agree to wait until the student had sufficient funds before depositing the check. Approximately 55 percent of tuition revenue in fiscal year 1987-88 (\$160,793) and 47 percent in fiscal year 1988-89 (\$133,491) was recorded on the accounting records in months when registration did not occur. Because the center did not deposit tuition receipts in a timely manner, it increases the risk of loss or theft and the state General Fund loses interest income.

Butte Vocational-Technical Center (89-16)

This report contains 17 recommendations to the center regarding:

- Compliance with state laws and policies.
- Controls over fixed assets.
- Accounting for financial activity in accordance with state law and policy.
- Compliance with federal financial assistance requirements.

One of the major issues is discussed briefly below.

During our audit we found several instances of noncompliance with state laws, regulations, and policies. We recommended the

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center obtain and use current copies of state laws, the Montana Operations Manual, and other state requirements in managing the center's operations. The center should establish written procedures to facilitate compliance with state requirements. The compliance issues relate to purchasing, College Work Study contracts, selection and use of consultants, travel, Contingent Revolving Fund, and untimely deposits.

Great Falls Vocational- Technical Center (89-17)

This report contains seven recommendations to the center regarding:

- Compliance with federal student financial aid requirements.
- Internal controls over cash receipts and equipment.
- Accounting for financial activity in accordance with state law and policy.
- Spending non-General Fund money first.

Helena Vocational- Technical Center (89-18)

This report contains 14 recommendations to the center concerning:

- Spending non-General Fund money first.
- Accounting for financial activity in accordance with state law and policy.
- Fixed asset controls.
- Compliance with federal regulations relating to student financial aid programs.

Missoula Vocational- Technical Center (89-19)

This report contains four recommendations to the center and one recommendation to the Commissioner of Higher Education concerning:

- Spending non-General Fund money first.
- Procurement of consulting services.
- Controls over fixed assets.
- Accounting for financial activity in accordance with state law.

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Board of Regents and the Commissioner of Higher Education (89-20)

This report contains two recommendations for improvement of CHE's operations. These recommendations address:

- Compliance with federal laws and regulations governing the board's responsibilities for monitoring subrecipients' use of federal funds.
- Compliance with state law limiting nonresident fee waivers.

Department of Agriculture Including Montana Agri- cultural Loan Authority (89-21)

This report contains four recommendations for improving compliance and accounting controls. The recommendations address:

- Setting grain service fees commensurate with costs.
- Complying with state laws and regulations.
- Properly accounting for the hail insurance program.

One of the major issues is discussed briefly below.

State law requires fees charged for grain testing reflect the actual cost of providing such services. The fund balance in the grains services account has grown from \$35,048 to \$321,793 in the last four fiscal years (fiscal year 1984-85 to 1988-89). The increasing fund balance indicates fees were set too high. We recommended the department review the grain services fee structure to ensure fees accurately reflect the cost of providing the service.

Department of Livestock (89-22)

This report contains seven recommendations for improving compliance and management controls. These recommendations address:

- Spending non-General Fund money first and saving the General Fund up to \$941,636.
- Workers' Compensation Coverage of independent contractors.
- Recording stock estray moneys in the Agency Fund and depositing \$17,239 of interest earnings in the General Fund.

One of the major issues is discussed briefly below.

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The department jointly funds the Centralized Services, Diagnostics Laboratory, and the Milk and Egg programs with General Fund and Special Revenue Fund moneys. We found the department had funds available in the Special Revenue Fund to finance the General Fund program costs. The department could have reduced its General Fund expenditures by \$748,252 in fiscal years 1987-88 and 1988-89.

Office of the Governor and Lieutenant Governor (90-20)

This report contains four recommendations for improvement in the office's operations. Items addressed in the report include:

- Monitoring contracts for services.
- Unrecorded patient accounts.
- Approval of applications for requesting federal assistance.
- Electronic data processing system controls.

Office of the Secretary of State (90-27)

This report contains six recommendations. Issues addressed in the report include:

- Undeposited receipts.
- Restrictive endorsements on checks.
- Unrecorded operating budgets.
- Non-General Fund expenditures.

Performance Audits

Scope and Objectives

Performance audits completed by the Office of the Legislative Auditor are designed to assess the effectiveness of the operations of state government. In order to fulfill this purpose the members of the performance audit staff hold degrees in disciplines appropriate to the audit process. Areas of expertise include business and public administration, statistics, economics, accounting, communications, computer science, and engineering.

The performance audit process starts with a review of statutory directives and program goals and objectives. Audit criteria are established and the program is evaluated in relation to whether statutory directives are met and associated goals achieved. The program is also evaluated to determine if directives and goals can be achieved with greater efficiency and economy while being properly controlled and managed.

Areas of Emphasis During the Biennium

During the past biennium, performance audit resources have been devoted to conducting performance audits, performance audit surveys, special projects, and legislative requests.

The Office of the Legislative Auditor completed 15 audits and 1 survey of state agency programs. Fifteen full-scale performance audits were completed. A few of the major areas of performance audit emphasis include: audits of Child Protective Services, Withholding Tax Program, Tort Claims Division, Motor Vehicle Recycling, and Lottery Security. A list of performance audits and surveys released in the past two years is provided in Appendix B. Audits in progress are listed in Appendix A.

Summary of Audit Findings

The audit reports issued include recommendations in areas where the office believes the agencies should take action to improve efficiency and accountability.

Audits noted instances where state agencies could save money. In other instances the office recommended action that would

allow the state to realize additional revenue from outside funding sources. Other findings noted situations where procedures did not comply with state or federal laws and regulations, as well as agency policies.

Following are some examples of findings included in the performance audit reports.

Lottery Security, Department of Commerce (87P-43A)

This report is required by section 23-5-1029, MCA, which requires the Office of the Legislative Auditor to conduct a comprehensive audit of all aspects of security in the operation of the Montana State Lottery. This report contains 19 recommendations for improving security over Lottery operations. The recommendations concern:

- Improving security over computer operations.
- Improving security over the Lottery building in Helena.
- Updating the current policies and procedures manual.

We also identified ~~areas~~ which addressed potential security invasion which by law must remain confidential. We issued a separate report which covered these issues.

Certificate of Need Program (88P-33)

The Certificate of Need (CON) program is a capital expenditure and development review and approval program of health care facilities and services. Chapter 477, Laws of 1987, required the Department of Health and Environmental Sciences to provide an evaluation of the need to continue CON beyond June 30, 1989, and to identify for the 1989 Legislature necessary alternative legislation if CON is discontinued. This report provides information regarding the CON program and identifies areas for legislative consideration. The report discusses the pros and cons of continuing, terminating, or altering the program.

Tort Claims Division, Department of Administration (88P-38)

This audit work involved a review of the Tort Claims Division insurance administration and claims handling procedures. The report contains 14 recommendations for improvement in the operation and management of the Tort Claims Division. The recommendations include:

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- Improving insurance coverage and billing of state agencies.
- Initiating an active risk management process.
- Establishing a plan for management of the self-insurance reserve fund.
- Developing formal policies and procedures for division operations.

Implementation of the recommendations should result in complete and more accurate source data; more analysis of current costs, claims histories and evaluation of deductibles; and a plan for sustaining the self-insurance reserve fund on an actuarially sound basis. There is currently a deficiency of approximately \$13 million.

Withholding Tax Program, Department of Revenue (88P-41)

The audit concentrated on the Withholding Tax program of the Income and Miscellaneous Tax Division of the Department of Revenue. Every employer who pays wages for services performed in Montana, or for services performed outside Montana by an employee who is a Montana resident, must withhold tax. We examined the management controls for the three sections of the department charged with the primary administrative duties related to collecting these withheld taxes. The sections are: Business Tax, Field Audit, and Accounts Receivable and Collection.

This report contains 12 recommendations for improvement in the administration of the Withholding Tax program. The recommendations include:

- Improving management controls in the Income and Miscellaneous Tax Division.
- Seeking legislative authority for write-offs of delinquent taxes that cannot be collected.

There has also been a \$14 million increase in outstanding tax receivables in five years. The department needs to allocate its staffing resources to address this issue.

**Treasury Bureau, Department of Administration
(88P-42A)**

This audit examined Treasury Bureau files, procedures, and activities which relate mainly to the collection and deposit of state funds received from various sources. We also conducted tests to determine if the bureau, depository banks, and counties are depositing state funds on a timely basis.

This report contains five recommendations for improvements in the maintenance of depository bank accounts. The recommendations address:

- Criteria for determining compensating balances.
- Obtaining banking services.
- Consolidating the number of depository banks.

The report also notes some counties are not transferring money which they collect for the state in a timely manner; and statutorily required interest is not being charged to these counties. The state should have received \$20,185 of interest during six months of 1988.

Space Utilization and Records Management, Helena-located State Agencies (88P-43)

This performance audit reviewed state agency space utilization and records management in the Helena area. The overall audit objective was to examine current allocation of office space and records management practices. This report presents information on current and historical space utilization. Although variations in how agencies use available space existed, we found no evidence of excessive inefficient use of space. The potential for space consolidation and the amount of space needed by an agency should be evaluated prior to occupancy and on a scheduled basis thereafter. The report recommends the legislature revise property management statutes to establish an active space allocation/utilization function.

Motor Vehicle Recycling and Disposal Program, Department of Health and Environmental Sciences (89P-28)

The Solid and Hazardous Waste Bureau is responsible for administering the state and county junk vehicle programs which oversee the disposition of junk vehicles and the operation of motor vehicle wrecking facilities. We examined the efficiency

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and effectiveness of program operations and program compliance with applicable statutes and administrative rules.

This report contains 12 recommendations for improvements to program operations. The recommendations address:

- Becoming more active in program enforcement activity.
- Clarifying state and county level responsibilities.

The program should also revise contract specifications and procedures to ensure the state is reimbursed for all recycled vehicles. During fiscal years 1988-89 and 1989-90 additional revenue of \$17,800 could have been obtained.

Department of Family Services, Child Protective Services Program (89P-29)

The Child Protective Services Program's main purpose is to identify and protect abused and neglected children and provide services to children and families. The audit focused on Child Protective Services Program investigations, case monitoring, foster care, and adoption, as well as compliance with applicable statutes, administrative rules, and department policies.

This report contains 19 recommendations for improvements in the administration of the Child Protective Services Program. The recommendations address:

- Improving case management.
- Conducting quality control reviews.
- Seeking legislation to clarify provisions of administrative budgets for nonassumed counties.
- Developing an appropriate management information system.

While we identified specific concerns regarding the program, generally the department adequately follows up on alleged child abuse and neglect and protects children from future abuse or neglect.

Vendor Selection, Department of Administration (89P-30)

The audit involved reviewing the methods followed by the Purchasing Bureau when selecting vendors to receive Invitation for Bids. We reviewed the bureau's procedures to determine if vendors were being treated in a fair and equitable manner and to determine the adequacy and accuracy of the vendor list.

This report contains seven recommendations for improvements in the vendor selection process. The recommendations include:

- Establishing a better balance between known competitive vendors and remaining vendors on the vendor list.
- Limiting the number of bids requested from agency-suggested vendors.
- Removing nonresponsive vendors from the vendor list on a timely basis.

Montana Department of Highways, Gross Vehicle Weight Division (89P-31)

The audit focused on the weight enforcement operations of the Gross Vehicle Division (GVW) of the Department of Highways. We also reviewed historical data regarding GVW revenue and vehicle traffic to evaluate the adequacy of GVW fees.

This report contains five recommendations for improvements in the administration of the Gross Vehicle Weight program. The recommendations include:

- Delegating more authority over GVW operations to the district level.
- Conducting a study to determine the appropriate level of GVW and other highway user fees.

We found no indications GVW fees are based on any relationship between vehicle weight and pavement design requirements or pavement wear. The percentage of revenue within the special revenue account attributable to heavy vehicle traffic (diesel taxes and GVW fees) has gradually declined over the last ten years. Although total GVW income has been increasing, the percentage of highway revenue raised from GVW fees has decreased from 25.1 to 17.2 percent. The percentage of revenue

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attributable to other vehicles (gas tax) has increased from 52.9 to 57.1 percent.

A cost responsibility study can be used to determine if different vehicle classes are paying their fair share of road costs. Such a study would involve collecting data on revenue generated by each class of vehicle and highway use by each class of vehicle. The study can involve breaking costs down to those directly related to gross and/or axle weights (incremental costs) and those not related to weight (nonincremental costs).

Control Over Use of State Telephones (89P-32)

A limited scope follow-up of the 1986 performance audit of controls over the use of the state telephone system was requested by the Legislative Audit Committee. This report summarizes our follow-up of past performance audit recommendations and our review of current state policies, procedures, and controls regarding use of the state telephone system.

This report contains two recommendations concerning controls over the use of the state telephone system. These recommendations include:

- Clarifying policies and procedures regarding use of state agency telephone credit cards.
- Improving procedures for the approval of access by non-profit organizations to the state telephone system.

Crime Victims' Compensation Program, Crime Control Division Board of Crime Control (89P-34)

The audit examined the activities of the Crime Victims' Compensation Program which is responsible for providing compensation for innocent victims of criminal acts who suffer bodily injury or death. We surveyed law enforcement agencies and victims. The program meets the general intent of the legislature and pays benefits in accordance with restrictions established by the legislature.

If the state does not cover DUI injuries federal funding of approximately \$130,000 per year could be lost. If the state were to begin coverage of DUI claims, it would cost the state even more. An additional \$1.35 million for each of the first two

years would be needed. After two years the federal reimbursement for DUI costs would begin and the additional cost to the state would drop to approximately \$650,000 per year.

Department Print Shops (89P-35)

A limited scope performance audit of four department "print shops" was requested by the Legislative Audit Committee in response to a written request from the Printing Advisory Council. The Printing Advisory Council was created in 1987 by House Joint Resolution 52 to promote understanding and cooperation between government and private printing operations. The Council was interested in obtaining information on four state-operated "print shops" located at the following departments: Labor and Industry; Fish, Wildlife and Parks; Highways; and Justice. Central "printing" is conducted at the Publications and Graphics Bureau within the Department of Administration.

This report presents information on the feasibility of consolidating department print shops with the Department of Administration's printing operation. Based on the available information there does not appear to be an economic benefit to consolidation. Printshops were meeting departmental needs in a timely manner with quality services.

Payroll/Personnel/Position Control System (89P-36)

This report contains three recommendations for improvements in the administration of the Payroll/Personnel/Position (P/P/P) system. This audit included a review of system development, use and operations. The recommendations address:

- State Auditor's Office support of the P/P/P system.
- Office of Budget and Program Planning procedures for monitoring position control.

These major issues are discussed briefly below.

We found the Position Control Reports put out by the system may be misleading. The reports show an employee's authorized grade and salary, which may not be the same as the employee's actual grade and salary. Without interpretation from the

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applicable agency, ■ Position Control report user could read data which is either confusing or misleading.

We found that one person at the Office of Budget and Program Planning (OBPP) is responsible for monitoring and evaluating position control for all agencies. We believe OBPP should develop ■ formalized procedure manual detailing position control activities and initiate ■ backup procedure for position control review.

Survey of University Staffing and Workload (90P-29)

At the request of legislators and approval by the Legislative Audit Committee, we conducted ■ survey of university staffing and workload patterns of faculty and professional staff. We determined the different types of numbers of staff at each university unit. We defined the various duties that comprise university faculty and professional workload, and we determined what workload policies and procedures the university system had in place. Workload data was compiled and compared to each university unit's mission statements and information reported in other national workload studies. The report also discussed how workload is assigned and monitored by university management.

Employment Services Program, Department of Labor and Industry (90P-31)

This audit concentrated on the Employment Services program administered by the Job Service Division, Department of Labor and Industry. The objectives of the audit included determining the primary emphasis of the Employment Services program and the types of jobs available to applicants. To gather information concerning these issues we visited seven local offices and the central office in Helena.

This report contains ten recommendations for improvement in the administration of the Employment Services program. The recommendations include:

- Clarifying policies and procedures concerning writing of job orders and conducting file searches.
- Improving general controls over computer programs and data.

Overall we found this intake, job order, and referral process meet the intent of the program and are adequate. Compared to 1985, the 1989 average annual employment increased by 12,170 employees. The service industry shows the largest percentage growth from 1985 to 1989. The construction industry shows the largest percentage drop in employment. Division philosophy is to focus on placing applicants in the best paying permanent jobs listed with local offices. Statistics indicate the number of job orders for positions lasting 150 days in these positions is increasing. Also, most applicants are placed in the wage bracket of \$5.00 to \$5.49 an hour, up from \$3.35 to \$3.89 in fiscal year 1984-85.

Other Responsibilities

Electronic Data Processing Audits (EDP)

With the increase in computerization of state government, the Office of the Legislative Auditor has devoted resources to reviewing computer related issues, developing specialists and technicians, and providing additional training to all staff members.

EDP audits combine some of the elements of both financial-compliance and performance audits. Controls within EDP operations are examined to determine whether assets are adequately safeguarded and to determine the reliability of computer-generated reports. In addition, EDP audits address efficiency and effectiveness issues, such as acquisition of computer equipment and management of computer resources.

Areas of Emphasis during the Biennium

EDP audits have been conducted in several areas including an annual audit of the state's information processing facility and the three major applications used in state government, and an audit of the Department of Highways data processing function. The EDP audit staff also participated in planning and reviewing work on various financial-compliance and performance audits.

Contract Audits

To ensure audit coverage as required by law is maintained, and to satisfy needs of some agencies for additional audit coverage, the Office of the Legislative Auditor contracts with private CPA firms for audits of state agencies. This procedure provides additional audit coverage of state agencies on a current basis. Any qualified accounting firm may submit proposals for auditing selected state agencies. The Legislative Audit Committee awards the contract to the lowest qualified bidder. The contract auditor presents the completed audit report to the Legislative Audit Committee.

Special Projects

Special projects consist of:

1. Audit or review projects undertaken with a specific but limited scope. Generally these projects are undertaken to obtain information used to analyze a specific state activity that has occurred or is contemplated. Information may be used to determine whether audit work is warranted or feasible. Special projects may involve accounting, compliance, program results, efficiency, defalcations, or other matters.
2. Internal projects undertaken to assess or improve the operations of the Office of the Legislative Auditor. These projects may be assigned to any staff member and may result in oral or written reports to the Legislative Auditor or in the preparation of materials to be used by office management.

Legislative Requests

Legislative requests are projects undertaken as the result of requests by the legislature, its committees, or its members. Legislative requests will be undertaken as either financial-compliance audits, performance audits or surveys, EDP audits, or special projects, depending upon the nature and scope of the work. Work done upon legislative requests may result in a formal written report or a letter report. The office completed work on approximately 330 legislative requests in the past two years. This is required by Title 5, chapter 13, MCA, which states:

" . . .the legislative auditor and his staff, when requested, shall assist the legislature, its committees, and its members by gathering and analyzing information relating to fiscal affairs of state government."

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Individuals desiring copies of any reports may receive them upon request to the Office of the Legislative Auditor, Room 135, State Capitol, Helena, Montana 59620.

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